



Residential Property Insurance

House Bill 1171 – by Representative Proctor

(This Memorandum is drafted to the Strike-All Amendment to HB 1171)

- **To have a vibrant and affordable property insurance market with more options for consumers, Florida must attract more private insurance companies to create competition.**
- **Consumers should have the freedom to choose the type of residential policy and premium that is best for them without unnecessary intervention from regulators.**
- **Just as important as affordability, consumers want to be assured that their insurer has the resources to pay claims.**

HOUSE BILL 1171

We must trust Floridians, armed with all the relevant information, to make the best decision for their individual situation. We can't allow Florida's "hurricane problem" to create an economic disaster by discouraging private insurers in the market and preventing Florida's consumers from having the option to choose a residential property insurance policy, even if the premiums for that policy are higher than they would pay with another insurance company in Florida.

House Bill (HB) 1171 creates opportunities for consumer choice by allowing insurance companies meeting statutory criteria to offer a new type of residential property insurance policy that is not subject to Office of Insurance Regulation (OIR) determinations that the rate is "excessive." The statutory criteria require that companies authorizing this new type of policy must:

- Be authorized to write property insurance in Florida.
- Maintain \$500 million or more in surplus or, if the insurer has surplus lines equal to or greater than \$200 million, the insurer must have a ratio of net written premium¹ to surplus not more than two to one.²
- Not purchase coverage in the Florida Hurricane Catastrophe Fund for the temporary increase in coverage limit options (TICL options).

¹ The strike all amendment provides requirements for calculating "net written premium."

² This means that the insurer writes \$2 in net premium for every \$1 of surplus the insurer maintains. Generally, the ratio of net written premium to surplus is an indication of the financial strength of an insurer with a lower ratio indicating greater financial strength.

The rates for these policies would still be reviewed by OIR for a determination of whether they are inadequate or unfairly discriminatory. Furthermore, in order to protect consumers, the bill requires:

- Notice to the consumer that the policy is not subject to OIR determinations that the rate is “excessive.”
- That consumers receive a quote from either Citizens or from an admitted insurer willing to insure the risk under a fully regulated policy that provides substantially similar coverage, limits, and deductibles to the extent available.
- That consumers sign an acknowledgement form indicating, among other things, that the consumer understands that the rate for the policy is not regulated by OIR and may be higher than rates approved by that office.

If this legislation is enacted into law, consumers will have the option to decide what premium and policy is best for them without burdensome intervention from regulators.

BACKGROUND

After Florida’s active hurricane seasons in 2004 and 2005, the State saw a dramatic spike in property insurance prices. As a result, the Legislature worked hard to reduce the burden on Floridians and put consumer protections in place to ensure that Floridians were treated fairly by insurance companies. These efforts were a success; prices have stabilized and, in many cases, have gone down. However, some of these policies have been enforced by regulators in a way that has forced rates to be kept too low, and we are now in a position that discourages private insurers and potentially makes Floridians even more financially vulnerable should we be faced with an active hurricane season in the very near future.

Under current law, all residential property insurance policies are subject to Rating Laws found in Part I of Chapter 627, F.S. (ss. 627.011-627.311, F.S.) to ensure that insurance rates are not excessive, inadequate or unfairly discriminatory. Every rate for residential property insurance must be submitted by the insurer to the OIR, which reviews and either approves the rate, or disapproves the proposed rate because it is determined to be excessive, inadequate or unfairly discriminatory based on a number of statutory factors.³

Instead of giving Floridians the benefit of the doubt and letting them pay premiums at the rates requested by insurance companies, regulators have substituted their judgment for that of Florida’s consumers and have used their statutory power to force insurance companies to keep rates lower than private insurance companies have requested and recommended. Insurers believe regulators have suppressed rates in a way that prevents them from having adequate capacity to pay their customers’ claims should Florida suffer significant losses due to an active hurricane season. Not only does this method of interpretation by regulators put Floridians investment in their insurance policies and homes in jeopardy, it deprives Florida’s consumers of a competitive insurance market as private insurers are discouraged from entering or remaining in Florida.

Passage of HB 1171 puts the power back into the hands of the people best equipped to make their insurance choices - Florida’s consumers. Passage of HB 1171 is vital to ensure a vibrant, sustainable private insurance market for Floridians.

³ s. 627.062, F.S.